



Niagara Structural Steel
ANNUAL REPORT 1977

Niagara Structural Steel

Steel Fabrication

Niagara Structural Steel (St. Catharines) Limited,
St. Catharines, Ontario

Steel Construction

Niagara Structural Steel (St. Catharines) Limited,
St. Catharines, Ontario

Steel Service Centres

Niagarasteel, St. Catharines, Ontario
Norsteel, Sept-Îles, Quebec

Steel Grinding Ball Mill

Norforge Inc., Sept-Îles, Quebec

Helping to build a strong future.

NIAGARA STRUCTURAL STEEL COMPANY LIMITED AND SUBSIDIARY COMPANIES

HEAD Office

Smith & Petrie Streets, St. Catharines, Ontario.

Subsidiaries

Niagara Structural Steel (St. Catharines) Limited

Northern Steel (1972) Limited

Northern Steel Co. Ltd.

Norforge Inc.

Directors

B. A. Brown

V. E. Carr

M. E. Fedryna

M. J. Howe

R. A. Kennedy

H. W. Olch, Q.C.

H. P. Tomarin

Officers

H. P. Tomarin, Chairman of the Board and Chief Executive Officer

R. A. Kennedy, President and Chief Operating Officer

V. E. Carr, Vice-President Operations

M. E. Fedryna, Vice-President Material Services

S. O. Nicholls, Vice-President Finance

S. A. Tomarin, Assistant to the President

H. W. Olch, Q.C., Secretary

P. J. Kent, Assistant Secretary

Auditors

Ernst & Ernst, Toronto, Ontario.

Solicitors

Olch, Torgov, Cohen & Kent, Toronto, Ontario.

Registrar and Transfer Agent

The Canada Trust Company, Toronto, Ontario.

First Preference Shares, Series A

Listed - Toronto Stock Exchange

Report to the Shareholders

Your Board of Directors submits herewith results for Niagara's fiscal year ended August 31, 1977. In a standstill economy, with expansion deferred and inventories reduced, your Company's sales for the year eased only 1/2 of 1% from 1976 - \$24 million as against \$25 million, and pre-tax profit eased to \$1.334 million from \$1.501 million - a percentage drop on sales of only 3/10 of 1%.

Net income after taxes of \$732,000 is down from \$838,000 and per common share earnings of \$1.44 are down from \$1.65; in all the circumstances this must still be regarded as a satisfactory performance. During the year dividends aggregating \$30,674 were paid on the Preference Shares Series A and \$97,355 on the Common Shares. 1,800 Preference Shares Series A with a total par value of \$54,000 were purchased for cancellation out of the Preference Share Purchase Fund. The Company set aside for the fiscal year passed an additional sum of \$12,000 pursuant to the provisions attaching to the Preference Shares Series A, bringing said Purchase Fund up to \$26,586 as at August 31, 1977.

Your Company's expansion into the manufacture of steel grinding balls for sale to the iron ore mines and other users is advancing on schedule. This division will be operated by Norforge Inc., a new Quebec subsidiary. Land has been acquired at Sept-Iles, Quebec, adjacent to our Norsteel steel service centre, and construction of building and installation of equipment is well under way. Commencement of production is scheduled for the end of February 1978. Long term contracts for purchase of raw material and for sale and delivery of product have been negotiated. Grants in aid have been announced by both the Industrial Development Corporation of Quebec and the federal government's Department of Regional Economic Expansion. All long-term and operating financing to a total of \$3 million plus has been committed by Niagara's general bankers.

Niagara's venture into computer drafting and structural steel detailing has increased efficiency and profitability. Our enthusiasm for the future of this promising field has led us to form a separate division which will exploit and market the computer software originally developed for our own use.

The coming year does not promise any dramatic upsurge in the general economy, nor in the fortunes of our industry. However we are anticipating acceptable volumes and results at Niagara due mainly to the quality of our work on hand and the ongoing streamlining of our steel service centre operations.

The directors recognize the dedicated performances of management and staff during the past year.

On behalf of the Board of Directors.



Chairman and Chief
Executive Officer



President and Chief
Operating Officer

St. Catharines, Ontario
November 15, 1977

NIAGARA STRUCTURAL STEEL COMPANY LIMITED AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS

	August 31,	
	1977	1976
Cash	\$ 3,354	\$ 5,628
Accounts receivable less allowance for doubtful accounts of \$234,096; (1976 - \$287,554)	5,555,753	6,082,017
Unbilled contract revenue	2,076,084	1,984,569
Inventories of steel, work in process and sundry materials at the lower of cost or net realizable value	5,859,136	5,252,075
Current portion of agreement of sale - Note C	10,610	9,926
Prepaid expenses	144,979	122,168
TOTAL CURRENT ASSETS	13,649,916	13,456,383
PROPERTY, PLANT AND EQUIPMENT - Notes A and B	4,740,329	4,220,822
Less - allowances for depreciation	1,563,718	1,291,662
	3,176,611	2,929,160
OTHER ASSETS		
Agreement of sale, less current portion - Note C	15,166	25,783
Incorporation and issue expenses less amortization - Note A	16,000	20,000
	31,166	45,783
	\$16,857,693	\$16,431,326

See notes to consolidated financial statements.

AUDITORS' REPORT TO THE SHAREHOLDERS

To the Shareholders,
Niagara Structural Steel Company Limited.

We have examined the consolidated balance sheet of Niagara Structural Steel Company Limited and subsidiary companies as at August 31, 1977 and the consolidated statements of operations, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at August 31, 1977 and the results of their operations and changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ernst & Ernst
Chartered Accountants
October 21, 1977

LIABILITIES AND SHAREHOLDERS' EQUITY

	August 31,	
	1977	1976
CURRENT LIABILITIES		
Bank loans - Note D	\$ 3,119,291	\$ 2,902,111
Accounts payable and accrued liabilities	3,786,644	2,948,449
Income taxes payable - Note E	1,659,156	1,198,397
Deferred contract revenue	1,112,875	3,165,906
Current portion of term bank loan - Note D	100,000	162,000
TOTAL CURRENT LIABILITIES	9,777,966	10,376,863
TERM BANK LOAN - Note D	1,400,000	1,054,092
DEFERRED INCOME TAXES - Note E	435,018	324,086
	11,612,984	11,755,041
SHAREHOLDERS' EQUITY		
Capital stock - Note F		
First preference shares with a par value of \$30 per share, issuable in series:		
Authorized 44,979 shares; issued 14,979; (1976 - 16,779)		
Series A 6-1/2% cumulative shares redeemable at \$31.50	449,370	503,370
Common shares without par value		
Authorized 1,000,000 shares; issued 486,775 shares	1,041,637	1,041,637
Excess of net asset value of subsidiary over purchase price of shares at date of acquisition	193,897	193,897
Contributed surplus - Note F	24,139	5,553
Purchase fund for Series A first preference shares - Note F	26,586	50,000
Retained earnings	3,509,080	2,881,828
	5,244,709	4,676,285
	\$16,857,693	\$16,431,326

APPROVED ON BEHALF OF THE BOARD:

H. P. Tomarin, Director

R. A. Kennedy, Director

NIAGARA STRUCTURAL STEEL COMPANY LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF OPERATIONS

	Year Ended August 31,	
	1977	1976
Net sales	\$24,116,631	\$25,336,022
Cost and expenses		
Cost of sales and operating expenses ..	22,081,483	23,117,420
Depreciation	288,460	267,169
Interest on long-term debt	136,309	158,015
Interest on short-term borrowings	276,712	292,079
	<u>22,782,964</u>	<u>23,834,683</u>
INCOME BEFORE INCOME TAXES	1,333,667	1,501,339
Income taxes - Note E		
Current	490,868	529,632
Deferred	110,932	133,868
	<u>601,800</u>	<u>663,500</u>
NET INCOME	\$ 731,867	\$ 837,839
Earnings per common share	\$ 1.44	\$ 1.65

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	August 31,	
	1977	1976
Balance at beginning of year	\$2,881,828	\$2,174,063
Add: Net income for year	731,867	837,839
Transfer from purchase fund for Series A preference shares - Note F Note F	35,414	-0-
	<u>33,649,109</u>	<u>3,011,902</u>
Deduct: Dividends paid:		
Preference shares	30,674	32,719
Common shares	97,355	97,355
Transfer to purchase fund for Series A preference shares - Note F	12,000	-0-
	<u>140,029</u>	<u>130,074</u>
BALANCE AT END OF YEAR	\$3,509,080	\$2,881,828

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended August 31,	
	1977	1976
SOURCE OF FUNDS		
Net income	\$ 731,867	\$ 837,839
Add items not requiring an outlay of working capital:		
Depreciation	288,460	267,169
Amortization of incorporation and issue expenses	4,000	4,000
Deferred income taxes	110,932	115,086
Loss on disposal of equipment	5,650	1,829
TOTAL FROM OPERATIONS	1,140,909	1,225,923
Proceeds from disposals of plant and equipment	4,150	4,049
Reduction in agreement of sale	10,617	10,141
Increase in term bank loan	1,500,000	300,000
	<u>2,655,676</u>	<u>1,540,113</u>
USE OF FUNDS		
Repayment of term bank loan	1,054,092	166,000
Current portion of term bank loan	100,000	42,000
Purchase of plant and equipment and improvement to buildings	545,711	529,560
Dividends paid - preference shares	30,674	32,719
- common shares	97,355	97,355
Cancellation of Series A preference shares ..	35,414	-0-
	<u>1,863,246</u>	<u>867,634</u>
INCREASE IN WORKING CAPITAL	\$ 792,430	\$ 672,479
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Increase (decrease) in current assets:		
Cash	\$ (2,274)	\$ 5,091
Accounts receivable	(526,264)	1,631,899
Unbilled contract revenue	91,515	1,575,297
Inventories of steel, work in process and sundry materials	607,061	(1,011,653)
Current portion of agreement of sale	684	843
Prepaid expenses	22,811	(46,039)
INCREASE IN CURRENT ASSETS	193,533	2,155,438
Increase (decrease) in current liabilities:		
Bank advances	217,180	779,504
Accounts payable and accrued liabilities ..	838,195	308,567
Income taxes payable	460,759	598,421
Deferred contract revenue	(2,053,031)	(245,533)
Current portion of term bank loan	(62,000)	42,000
(DECREASE) INCREASE IN CURRENT LIABILITIES	(598,897)	1,482,959
INCREASE IN WORKING CAPITAL	\$ 792,430	\$ 672,479

NIAGARA STRUCTURAL STEEL COMPANY LIMITED AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 1977

NOTE A — ACCOUNTING POLICIES

Principles of Consolidation: The accompanying financial statements include the accounts of Niagara Structural Steel Company Limited and its subsidiary companies, all of which are wholly owned.

Niagara Structural Steel (St. Catharines) Limited

Northern Steel (1972) Limited and its wholly owned subsidiary, Norforge Inc. Northern Steel Co. Ltd.

All significant intercompany transactions have been eliminated on consolidation.

Basis of Accounting for Contract Profits: Profits from contracts are recorded based on the estimates of the percentage-of-completion method of accounting. Losses are provided for in full when known.

Unbilled contract revenue, included with current assets, represents the excess of contract costs and profits recorded over contract billings on specific contracts. Deferred contract revenue, included with current liabilities, represents any excess of contract billings over contract costs and profits recorded on other contracts.

Property, Plant and Equipment: Property, plant and equipment owned by one of the Company's subsidiaries, Niagara Structural Steel (St. Catharines) Limited, was appraised in 1962 at a depreciated value of \$1,439,547. The directors of this subsidiary company placed a value on these assets of \$1,428,697 and the excess of \$913,165 over depreciated net book value was recorded as part of the subsidiary's shareholder's equity.

Subsequent additions have been recorded at cost. All other property, plant and equipment has been stated at cost.

Major capital expenditures are capitalized, while costs of maintenance and repairs are charged to operations as incurred. Gains and losses on disposals of property, plant and equipment are recorded to operations as incurred.

Depreciation is provided on the straight-line method at rates previously determined by an independent firm of consulting engineers. These rates vary between 2.8% and 26.3% per annum.

Income and Issue Expenses: These costs are being amortized at the rate of \$4,000 per year.

NOTE B — PROPERTY, PLANT AND EQUIPMENT

	August 31,	
	1977	1976
Land and land improvements	\$ 319,065	\$ 303,372
Buildings	1,657,590	1,456,743
Machinery and equipment	2,657,457	2,460,707
	4,634,112	4,220,822
Allowances for depreciation	1,563,718	1,291,662
	3,070,394	2,929,160
Construction in progress	106,217	-0-
	<u>\$3,176,611</u>	<u>\$2,929,160</u>

NOTE C — AGREEMENT OF SALE

This amount represents the principal balance due on the sale of a building by a subsidiary in 1970 pursuant to an agreement of sale, and is payable in monthly payments of \$1,000 which includes principal and interest at 6-5/8% per annum. Principal payments of \$10,610 (1976 - \$9,926) are due within one year and are included with current assets.

NOTE D — BANK LOANS

Bank loans included with current liabilities, are payable on demand and secured by accounts receivable and inventories, and by a demand debenture of \$1,250,000 consisting of a floating charge on all assets but subject in priority to debentures given to secure the term bank loan.

The principal amount of the term bank loan of \$1,500,000 is repayable in eighteen consecutive semi-annual installments of \$50,000 each commencing February 28, 1978, with the balance then outstanding due and payable on February 28, 1987. Interest on the outstanding principal balance is payable

monthly and is calculated at a rate not to exceed one percent over the prime lending rate of the company's general bankers existing from time to time. The term bank loan is secured by demand debentures of \$2,500,000 constituting a first floating charge on all assets, subject to the Company giving security on accounts receivable and inventories, in priority to these debentures, to secure bank loans payable on demand.

NOTE E — INCOME TAXES

Income taxes have been provided on the income shown in the financial statements. Taxable income is determined on a different basis and gives rise to both current and long-term deferred income taxes:

(a) Current deferred income taxes (included with income taxes payable) result from the use of a different method to record income from contracts for tax purposes.

(b) Long-term deferred income taxes result primarily from claiming depreciation for tax purposes on plant and equipment in excess of amounts recorded in the accounts.

NOTE F — CAPITAL STOCK

Purchase Fund For Series A First Preference Shares, and Contributed Surplus: In accordance with the provisions attached to Series A First Preference Shares a purchase fund to the maximum amount of \$50,000 has been established for the purpose of acquiring Series A Preference Shares for cancellation. An amount of \$12,000 has been transferred to the purchase fund at August 31, 1977. During the year 1,800 preference shares were purchased at a cost of \$35,414 for cancellation. To date 3,550 preference shares with a par value of \$106,500 have been purchased, at a cost of \$82,361, and cancelled. The difference of \$24,139 has been credited to contributed surplus.

Stock Options: The Company has reserved 45,000 common shares to enable it to grant options at \$3.00 per share to such officers and full time key employees as the directors may determine from time to time. At August 31, 1977 no options had been granted.

NOTE G — COMMITMENTS

The Companies are committed to capital expenditures of approximately \$2,000,000 relating principally to the construction of a plant and the purchase of land and equipment for the Norforge production facility in Sept. Iles, Quebec. Expenditures to August 31, 1977 have amounted to \$106,217. A development incentive grant under the Regional Development Incentive Act of the Government of Canada has been authorized. This grant is to be based on the approved capital costs of the facility and is expected to amount to approximately \$375,000. In addition, an application has been approved for financial assistance of \$200,000 from the Industrial Development Corporation of Quebec to be received over a period of five years.

The Companies have annual commitments amounting to approximately \$315,000 (1976 - \$285,000) for equipment rentals under leases of varying terms up to 5 years.

NOTE H — REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The remuneration of directors and senior officers (as defined by The Business Corporations Act of Ontario) amounted to \$321,773; (1976 - \$309,279).

NOTE I — PENSION PLANS

Contributions to pension plans covering most employees were charged to operations, including amortization of past service costs, which at August 31, 1977 amounted to approximately \$373,000. These past service costs are being amortized over periods from 10 to 15 years.

NOTE J — ANTI-INFLATION LEGISLATION

The Companies are subject to the Anti-Inflation Act and Regulations and accordingly restrictions have been placed on compensation increases, dividend payments and prices and profits relating to certain of their operations subsequent to October 14, 1975. At August 31, 1977 the Companies are in compliance with the Act and have no material unrecorded liability at that date.

NIAGARA

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